

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7861

BILL NUMBER: SB 596

DATE PREPARED: Jan 15, 1999

BILL AMENDED:

SUBJECT: Disqualification for Enterprise Zone incentives.

FISCAL ANALYST: Brian Tabor

PHONE NUMBER: 233-9456

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill provides that the Enterprise Zone (EZ) Board may disqualify a zone business from eligibility for enterprise incentives if the zone business conducts business activities on a temporary business site that is located outside, but close to, an EZ. It requires the EZ Board to adopt rules setting forth the standards it will use to determine whether such a zone business is disqualified from eligibility for incentives.

The EZ Board would be required to study whether: (1) EZ businesses that conduct business activities on temporary business sites that are located outside, but close to, an EZ gain an unfair business advantage compared with their competitors; and (2) the Board should adopt rules providing that those zone businesses must be disqualified from eligibility for incentives.

Effective Date: July 1, 1999; January 1, 2001.

Explanation of State Expenditures:

Explanation of State Revenues: Under this bill, if an EZ business were found to be conducting commercial activities on a temporary site just outside the boundary of a zone, the EZ Board must disqualify this business from receiving any EZ incentives. If some taxpayers were disqualified from receiving these credits or exemptions, state revenues would increase. However, if the lost incentives had been successful in creating employment and economic development, some positive secondary economic effects could be negated.

EZs are established in economically distressed areas where 25% of the households have incomes below the poverty level and unemployment is 150% higher than the state average. There are currently 21 zones which include approximately 1,701 businesses. Businesses located within EZs are eligible for several economic incentives, including gross income tax exemptions, employment expense tax credits, loan interest credits, investment cost credits, and Neighborhood Assistance tax credits. Residents of EZs may also benefit through

the employee AGI tax deduction. The EZ program is administered by the Indiana Department of Commerce, the EZ Board, and local Urban Enterprise Associations.

Although the EZ Board would incur administrative costs associated with this bill, additional staff would not be necessary. Disqualification rules would need to be established, and this proposal also requires the Board to study the issues of competition involved with EZ businesses operating on temporary sites outside of their zones. The Board must report its findings and recommendations to the General Assembly before November 1, 1999.

Explanation of Local Expenditures:

Explanation of Local Revenues: Inventory maintained within an EZ is exempt from property taxes. If a business were disqualified from receiving this exemption, the local tax base would increase, resulting in a shift in the local property tax burden. The amount of this shift would vary in each case, but \$37,287,868 in total inventory tax credits was taken by EZ businesses statewide in CY 1997.

State Agencies Affected: EZ Board, Indiana Department of Commerce.

Local Agencies Affected: Urban Enterprise Associations.

Information Sources: Leslie Richardson, Director, Division of Research, Indiana Department of Commerce, (317) 232-8962.